

Management Discussion and Analysis of Financial Condition and Results of Operations (As of September 10, 2008)

This MD&A contains projections and other forward-looking statements regarding future events. Such statements are predictions, which may involve known and unknown risks, uncertainties and other factors, which could cause the actual events or results and company plans and objectives to differ materially from those expressed. For information concerning factors affecting the Company's business, the reader is referred to the documents that the Company files from time to time with applicable Canadian securities and regulatory authorities.

This discussion and analysis of the results of operations of Quest PharmaTech Inc. (“Quest” or the “Company”) should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the six months ended July 31, 2008 and the audited consolidated financial statements for the years ended January 31, 2008 and January 31, 2007. This discussion and analysis provides an update to the discussion and analysis prepared for the year ended January 31, 2008. The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) and have not been reviewed by the Company’s auditors. This discussion and analysis provides information on the operations of Quest on a consolidated basis. All amounts are expressed in Canadian dollars unless otherwise noted and references to the term “year” refer to the fiscal year ended January 31st. Additional information related to the Company is on SEDAR at www.sedar.com.

Q2, 2009 Development Highlights:

- **Received second \$1,000,000 payment in connection with the Company’s license agreement for oncology applications.**
- **Held Pre-Clinical Trial Application (CTA) meeting with Health Canada to prepare for the Phase I clinical trial submission for Prostate Cancer**
- **Initiated toxicology testing under Good Laboratory Practices (GLP) to support a Phase I clinical trial for Prostate Cancer treatment**
- **Announced interim results from Phase I/II clinical trial for the Company’s photodynamic therapy for Hair Removal**

Overview

Quest PharmaTech is committed to build shareholder value through discovery, development and commercialization of new pharmaceutical products. It is developing a series of products for the treatment of cancer and dermatological conditions, based on its SonoLight Technology platform.

The patented SonoLight Technology is based on a unique non-toxic family of photosensitizing and sonosensitizing, small molecular weight compounds called Hypocrellin, isolated from a parasitic fungi that grows on bamboo trees in China. Quest is developing these compounds as

drugs, as well as developing novel means of activating and delivering them to target tissues. Quest's products are expected to offer high selectivity and efficacy with minimal side effects.

Products under Development:

Dermatology: The Company's lead product, **SL017**, is a topical formulation indicated for dermatology applications. The utility of SL017 with Intense Pulsed Light has already been demonstrated for hair removal applications in a Phase I clinical trial. The Company has initiated a 110 patient clinical trial for the same indication and the results are anticipated during the last quarter of calendar 2008. Use of SL017 with a light-based hair removal device is likely to overcome some of the limitations associated with the light treatment alone. In addition, SL017 has undergone a Canadian Phase I clinical trial for Actinic Keratosis and is also being evaluated for acne treatment in a pre-clinical study.

Oncology: A second product from the SonoLight platform, SL052, is an injectable formulation that is in late-stage pre-clinical development for prostate cancer treatment. SL052 will be delivered directly to the prostate by a unique delivery system thereby maximizing drug uptake and minimizing side effects. The animal studies done so far at the Cross Cancer Institute in Edmonton, Alberta indicate that SL052 has potential to destroy cancerous tumors on the prostate while limiting collateral damage to healthy tissue. SL052 is scheduled to enter a Phase I clinical trial during the first half of calendar 2009.

Products under Discovery:

Immuno Photodynamic Therapy: Our research has shown that photodynamic therapy can augment the therapeutic effects of immunomodulators such as antibodies, antigens, cytokines and immunoadjuvants in cancer patients. With a strong intellectual property position to use SL052 with immunotherapy, the Company has signed a collaborative research agreement with the BC Cancer Agency to investigate the therapeutic and mechanistic aspects of anti-tumor effect achieved in mice by treatment combining photodynamic therapy based on SL052 with various immunotherapeutic agents.

Sonodynamic Therapy: Sonodynamic therapy (SDT) involves the administration of non-toxic pharmaceutical agents which may be activated deep within the body, by ultrasound, which is in itself non-toxic. The goal of SDT is to provide effective and specific eradication or control of tumors, while minimizing or eliminating toxicity and morbidity to the remainder of the patient. The Company has initiated a discovery program to develop an adjuvant therapy to standard treatment for peritoneal and/or thoracic carcinomatosis, commonly consequential to a variety of late-stage malignancies. The treatment involves introduction of a non-toxic sonosensitizer to the peritoneal or thoracic space during routine therapeutic drainage of ascitic fluid or of pleural effusion, respectively. The sonosensitized tumor cells and micrometastases will be selectively destroyed by exposure to ultrasound energy applied to the exterior of the abdomen or thorax.

Strategic Partners

Marketing Partner for Asia: Quest has entered into a license agreement with KMH Co., Ltd ("KMH") to market the Company's hair removal product, SL017, in Asia. KMH is a publicly traded (KRX Stock Market: KRX), Korea-based healthcare company committed to the development, manufacture and commercialization of healthcare products and cosmetics. Under the terms of the agreement, KMH will be responsible for product registration, marketing, sales and distribution of SL017 for hair removal applications in Asia and to pay a royalty to Quest based on product sales. In addition, KMH will invest up to \$1,500,000 in Quest. KMH has already invested \$500,000.

Strategic Partner for Dermatology: Paramount BioSciences, LLC, has acquired multinational rights to Quest's proprietary SonoLight technology for dermatology applications. Paramount BioSciences is a global drug development and healthcare investment firm with a portfolio of life-sciences-focused companies. Under the terms of the agreement, Paramount BioSciences is responsible for dermatology-related development and commercialization activities outside of Canada. Quest will receive licensing fees and potential future milestone payments in excess of US\$35 million plus royalties on sales.

Partner for Manufacturing Development: Quest PharmaTech and the Alberta Research Council (ARC) have formed a strategic alliance to develop fermentation based technologies to manufacture Hypocrellin B, one of the essential ingredients for the SonoLight Technology. The ARC will undertake research to develop a semi-synthetic method for the manufacture of Hypocrellin B. If the project is successful, Quest will receive an exclusive license to the developed technology from the ARC to manufacture and commercialize HB based products, including SL017 for dermatology and SL052 for oncology applications.

Oncology Partner: Quest has signed an agreement with a multinational technology development company (the Investor) to receive \$3,000,000 to develop oncology products based on its SonoLight Technology. Under the terms of the agreement, Quest has already received \$2,000,000; and the balance of \$1,000,000 to be paid within the next six months. In return for this non-equity funding, the Investor will receive 35 percent of all future net revenue from the commercialization of Quest's oncology products. This agreement does not preclude Quest from out-licensing the oncology applications of the SonoLight Technology to a third party.

Financial Results

Net consolidated loss for the three month period ended July 31, 2008 was \$21,264 or \$0.00 per share. Consolidated income for the six month period ended July 31, 2008 was \$53,545 or \$0.00 per share. This compares to a consolidated loss of \$401,533 or \$0.01 per share and \$538,906 or \$0.01 per share, respectively, for the three and six month periods ended July 31, 2007. Research and development expenditures for the three and six month periods ended July 31, 2008 totaled \$273,532 and \$575,724, respectively, while general and administrative expenses were \$224,586 and \$347,928, respectively, for the same period. As of July 31, 2008, the Company had cash and cash equivalents of \$1,269,720. The Company also has debt of \$500,000 in the form of a convertible debenture (exercisable at \$0.25 and due on March 22, 2009).

On a forward going basis, the Company anticipates to receive \$1,000,000 in licensing fees to develop oncology products based on its SonoLight Technology. The Company may receive an additional \$1,000,000 equity investment from KMH Co., Ltd. upon reaching specific milestones related to SL017 for hair removal applications. The Company also expects to receive up to \$200,000 in a research grant to offset the costs to develop its ultrasound activation technology.

Currently, the Company has 4,800,000 outstanding share purchase warrants exercisable at \$ 0.20 and expiring September 19, 2008. If exercised, these warrants would generate up to \$960,000 of additional funding for the Company.

Results of Operations

Revenues

For the three and six month periods ended July 31, 2008, the Company recognized revenue related to licensing fees and marketing distribution rights. The following table identifies the changes in revenue for the three and six months ended July 31, 2008 compared to the three and six months ended July 31, 2007.

Revenue	For the three months ended July 31			For the six months ended July 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
	\$	\$	\$	\$	\$	\$
License fees	500,000	-	500,000	1,000,000	166,005	833,995
Market distribution rights	2,000	2,000	-	4,000	4,000	-
Total revenue from operations	502,000	2,000	500,000	1,004,000	170,005	833,995

License Fees

During the three and six month periods ended July 31, 2008, the Company recognized license fee revenue of \$500,000 and \$1,000,000, respectively, for oncology applications. During the six month period ended July 31, 2007, the Company recognized license fee revenue of \$166,005 for dermatology applications.

The oncology license agreement requires the Company to pay royalties on all future net revenue from the commercialization of the Company's oncology products. Under the terms of the agreement, the Company is required to use commercially reasonable efforts to initiate a Phase I clinical trial for photodynamic therapy treatment of prostate cancer. The Company is recognizing the license fee in relation to the costs incurred with these efforts and has recognized \$500,000 and 1,000,000, respectively, of the license fee for the three and six month periods ended July 31, 2008.

Expenses

The following table identifies the changes in General and Administrative expense for the three and six month periods ended July 31, 2008 compared to the three and six month periods ended July 31, 2007.

General and administrative expenses	For the three months ended July 31			For the six months ended July 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Salaries, wages and benefits	69,765	47,822	21,943	148,978	95,163	53,815
Audit fees	-	18,509	(18,509)	976	18,509	(17,533)
Legal fees	300	1,835	(1,535)	882	6,468	(5,586)
Other support costs	2,778	2,977	(199)	9,546	17,499	(7,953)
Travel	11,536	12,777	(1,241)	18,371	13,524	4,847
Consulting	112,500	27,499	85,001	125,000	108,499	16,501
Rent	2,831	2,345	486	5,643	4,142	1,501
Insurance	3,575	4,610	(1,035)	7,150	9,220	(2,070)
Public company related costs	21,301	25,463	(4,162)	31,382	42,644	(11,262)
Total general and administrative expenses	224,586	143,837	80,749	347,928	315,668	32,260

Overall, general and administrative costs have increased in 2008 compared to 2007 primarily due to an increase in salaries for the Company's corporate executives and also due to an increase in consulting and business development costs.

The following table identifies the changes in research and development expense for the three and six month periods ended July 31, 2008 compared to the three and six month periods ended July 31, 2007.

Research and development expenses	For the three months ended July 31			For the six months ended July 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
	\$	\$	\$	\$	\$	\$
Sub-contract, consulting and clinical trials	153,725	124,019	29,706	362,603	151,151	211,452
Salaries, wages and benefits	47,182	45,372	1,810	97,307	128,923	(31,616)
Legal (patent prosecution)	12,878	23,473	(10,595)	35,810	32,292	3,518
Rent	6,605	6,969	(364)	13,166	9,664	3,502
Other R&D costs	21,859	16,345	5,514	31,550	26,762	4,788
Supplies	56,975	4,883	52,092	60,980	9,639	51,341
Gross research and development expenses	299,224	221,061	78,163	601,416	358,431	242,985
Less						
NRC-IRAP funding	(25,692)	-	25,692	(25,692)	(13,340)	12,352
Alberta Ingenuity funding	-	-		-	(12,000)	(12,000)
Research and development expense (net)	273,532	221,061	52,471	575,724	333,091	242,633

Overall, R&D expenses have increased during the three and six month periods ended July 31, 2008 compared to 2007 due to an increase in activity with the Company's clinical trials. Most of

this increase is reflected in subcontract, consulting and clinical trials, and in supplies costs. Salary costs have decreased during the six month period ended July 31, 2008 compared to 2007 due to a reduction in R&D staff.

Discontinued Operations

As part of the Company's decision in February, 2005 to divest itself of its non-core assets, the Company has presented the activities related to non-core assets as discontinued operations.

During the six month period ended July 31, 2008, the Company recognized a disposal gain of \$5,000 related to the signing of a technology transfer agreement for the sale of the Bionex Technology to a third party. Under the terms of the agreement, the Company will receive cash of \$50,000, certain share consideration and certain future royalties upon the successful commercialization of Bionex related products.

Stock-Based Compensation Expense

During the three month period ended July 31, 2008, the Company granted a total of 50,000 (for the three month period ended July 31, 2007 – nil) stock options, as per the Company's Stock Option Plan. These options were granted to an employee and vest in November, 2008.

Deferred Revenue

The Company has recorded deferred revenue (current portion \$758,000 and long term portion \$97,667) in connection with amounts received for license fees and market distribution rights that relate to future periods. \$750,000 relates to the Company's oncology license agreement and will be recognized in the third and fourth quarter. The remaining \$105,667 (\$8,000 current and \$97,667 long term) relates to the market distribution rights for Asian hair removal and is being recognized over a remaining 13.2 year period.

Outstanding Share Data

As at September 10, 2008, there were 68,197,580 common shares issued and outstanding, 3,934,000 stock options and 4,800,000 share purchase warrants.

Financial Instruments

Fair Value - Given their short-term maturity, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the convertible debenture approximate the carrying value.

Foreign Currency Risk - The Company has assets and liabilities that are denominated in foreign currencies and that are exposed to the financial risk of earnings fluctuation arising from changes in foreign exchange rates and the degree of volatility of those rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

Credit Risk – Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. At July 31, 2008, 46% of accounts receivable were due from one party.

Liquidity and Capital Resources

As noted in the Risks and Uncertainties section below, the Company's ability to continue as a going concern is uncertain and is dependent upon its ability to raise additional capital to successfully complete its research and development programs, commercialize its technologies, conduct clinical trials and receive regulatory approval for its products.

At July 31, 2008, cash and cash equivalents was \$1,269,720 as compared to \$1,305,802 at January 31, 2008.

Cash provided by (used in) operating activities was \$409,256 and \$112,815, respectively, for the three and six month periods ended July 31, 2008 compared to (\$275,078) and (\$981,773), respectively, for the three and six month periods ended July 31, 2007.

The Company negotiated an extension to the maturity date of the \$500,000 convertible debenture which is now due March 22, 2009. The interest rate and conversion rate remain unchanged at 9% per annum and \$0.25 per common share, respectively.

In December, 2007, the Company announced that it had entered into an agreement with a third party to license the oncology applications of the Company's SonoLight technology. The Company has received \$2,000,000 under this agreement, with an additional \$1,000,000 expected to be received in December, 2008.

The Company may also receive future funding upon reaching specific milestones related to the strategic partnerships with KMH Co., Ltd. and with Paramount BioSciences.

The Company also expects to receive a research grant of up to \$200,000 during the next 12 months to offset the costs to develop its ultrasound activation technology.

On May 7, 2008, the Company announced the sale of its interest in the Bionex Technology to a third party. This transaction will provide a minimum of \$50,000 of funding to the Company.

The Company continues to implement a disciplined approach to containing costs and is focusing on programs aimed at achieving near-term goals.

Quest's funding needs will vary as its drug development products move into and through clinical trials. Based on current operating budgets and assuming the ongoing divestiture of non-core assets, management believes that the capital resources of the Company should be sufficient to fund operations into the first quarter of fiscal 2010.

The Company will seek additional capital through equity financings, licensing arrangements involving its core technologies and strategic partnerships.

Related Party Transactions

There were no related party transactions for the three and six month periods ended July 31, 2008.

Disclosure Controls and Procedures

The management of Quest is responsible for establishing and maintaining disclosure controls and procedures for the Company and is continuing with the implementation of disclosure controls and procedures, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to Quest management particularly during the period in which the filings are being prepared.

Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has taken steps to improve the procedures and provide maintenance related to an effective design for the Company's internal controls and procedures over financial reporting.

Management continues to note weaknesses in internal controls over financial reporting including those related to the limited number of accounting staff members resulting in a lack of segregation of duties.

Management will continue with the implementation of procedures aimed at minimizing the risk of material error in its financial reporting and will seek outside expertise when the need arises.

Risks and Uncertainties

Going concern uncertainty - The Company's financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has experienced significant operating losses and cash outflows from operations since its inception. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to raise additional capital to successfully complete its research and development programs, commercialize its technologies and conduct clinical trials and receive regulatory approvals for its products. It is not possible at this time to predict the outcome of these matters.

Quest's proprietary technologies are in various stages of development and some technologies have not received regulatory approval to begin clinical trials. It will be necessary for the Company to produce sufficient preclinical data in order to receive regulatory approval to begin clinical trials. There is no assurance that regulatory approval will be received to begin clinical trials. For the proprietary technologies that have received regulatory approval to begin clinical trials, future success will depend upon the ability of the Company to move the products through clinical trials, the effect and safety of these products, the timing and cost to receive regulatory and marketing approvals and the filing and maintenance of patent claims.

Quest's proprietary technologies have exposure to risks associated with commercialization. Even after product approval is obtained, there is no assurance that the Company will have a sufficient market for its products or the working capital required for commercialization.

The Company maintains clinical trial liability and product liability insurance; however, it is possible that this coverage may not provide full protection against all risks.

The Company may be exposed to risks associated with malfunctioning equipment, catastrophic events and other events within and outside of the Company's control. The Company maintains insurance believed to be adequate to cover any eventuality, but there is no guarantee that coverage will be sufficient for all purposes.

To a large degree, the Company's success is dependant upon attracting and retaining key management and scientific personnel to further the Company's drug development programs. There is a risk that required personnel may not be available to the Company when needed and, as a result, this may have a negative impact on the Company.

Quest must continue to raise additional capital through the exercise of stock options and warrants, issuing new share capital through equity financing, licensing arrangements and/or strategic partnerships. The Company's ability to raise additional capital will depend upon the progress of moving its drug development products into and through clinical trials and the strength of the equity markets, which are uncertain. There can be no assurance that additional capital will be available.